

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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U.S. DEPARTMENT OF COMMERCE
OFFICE OF TELECOMMUNICATIONS

POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

REPLY BRIEF OF NATIONAL ASSOCIATION OF PRESORT MAILERS

Henry A. Hart, Esq.
Hazel & Thomas, P.C.
510 King Street
Suite 200
Alexandria, VA 22314
Ph: 703-838-5153
Fax: 703-836-8062

Counsel for National Association of
Presort Mailers

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(April 10, 1998)**

The National Association of Presort Mailers ("NAPM") is filing on this same date a Joint Reply Brief with the American Bankers Association and Edison Electric Institute supporting substantial increases in discounts for workshare First-Class Letter Mail ("FCLM"). NAPM relies on the above-referenced Joint Reply Brief filed herein by ABA/EEI/NAPM. In addition, NAPM notes the following in this Reply Brief of NAPM.

- I. THE USPS'S ATTEMPT TO "FIX" ITS EMBARRASSING 1.0¢ BULK METER BENCHMARK CALCULATION ERROR HAS CAUSED IT TO SUGGEST A WORKSHARE FCLM DISCOUNT STRUCTURE WHICH FAVORS AUTOMATED BASIC FCLM OVER THE MUCH MORE VALUABLE AUTOMATED 3-DIGIT FCLM.
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The USPS is clearly uncomfortable with the fact that its pricing Witness, Fronk, based his proposed workshare FCLM discounts upon a new bulk meter mail benchmark the cost of which was discovered after the fact to have been understated by a little over 1.0¢. USPS Witness Fronk attempted to downplay the significance of his having relied on an erroneous benchmark cost, by arguing that he had originally proposed 3-digit and basic automated FCLM discounts which would have passed through 118% of the cost savings measured by this erroneous bulk meter benchmark, and that when the cost of the benchmark was corrected, his proposed rates would

still result in a 100% pass through of the cost savings of automated 3-digit FCLM and 97% of the cost savings of automated basic FCLM.¹ Citing this explanation of Mr. Fronk, the USPS now suggests that the damage resulting from this USPS benchmark calculation error can somehow be corrected by merely increasing the incentive proposed by the USPS for automated basic FCLM by 0.2¢, thereby passing through 100% of the cost savings measured by the "corrected" bulk meter benchmark.²

Unfortunately, this after-the-fact tinkering by the USPS with its own proposal would reduce the important gap in the discount levels of automated basic FCLM and automated 3-digit FCLM from the 1.0¢ gap originally proposed by the USPS, down to 0.8¢. The effect of this reduction in the gap between such discounts will be to encourage mailers to deliver the less valuable basic automated FCLM instead of striving to further automate their mail to the more valuable 3-digit FCLM level which the USPS itself has stated is the "key" automation rate.³ Both NAPM Witness MacHarg and ABA/EEI/NAPM Witness Clifton testified to the importance of having at least a 1.0¢ gap between the automated basic FCLM discount and the automated 3-

¹ Tr. 4/1407.

² USPS Initial Brief at p. V-25. The USPS also suggests that a similar upward adjustment of between 0.2¢ and 0.3¢ should be made to its proposed discount for retail presort FCLM. See USPS Initial Brief at pp. V-14 and V-15.

³ Fronk Direct Testimony (USPS-T32) at p. 27. See also MacHarg Direct Testimony at Tr. 27/14961, Line 17-19 and MacHarg Cross-Examination at Tr. 27/14987, Lines 9-14 where he explains that automated basic FCLM is still a relatively immature and unproven rate category which, because it allows sortation to only a mixed AADC, means that the USPS does not bypass processing operations at the origin USPS site for such mail.

digit FCLM discount in order to foster that added degree of worksharing which will make the USPS worksharing program successful.⁴

We submit that the real reason why Mr. Fronk initially recommended a 118% pass through of the cost difference measured by his bulk meter mail benchmark is that he recognized that it was a new, untested and extremely conservative measure of workshare cost savings. The fact that the USPS realized after-the-fact that it had made a 1.0¢ calculation error in the bulk meter mail benchmark, does not change the fact that this benchmark is still an extremely conservative measure of workshare cost savings, which, as pointed out by ABA/EEI/NAPM in their Initial Brief, significantly understates workshare cost savings.⁵ Therefore, there is still a very real reason for passing through much more than 100% of the cost savings measured by the "corrected" but still extremely conservative bulk meter benchmark utilized by Mr. Fronk.

The most important workshare rate category is automated 3-digit FCLM. The USPS's tacet admission of the extremely conservative measurement of its bulk meter mail benchmark should at the very least have caused it to recommend an increase in the discount proposed by the USPS for the automated 3-digit FCLM rate category.


It is imperative for the well-being of the USPS worksharing program that the gap between the discounts for automated basic FCLM and automated 3-digit FCLM be at least 1.0¢, as originally proposed by the USPS.

⁴ MacHarg Direct Testimony at Tr. 27/14961, Line 21-14962, Line 2; Clifton Direct Testimony (ABA/EEI/NAPM-T1) at Tr. 24/12506, n. 14.

⁵ ABA/EEI/NAPM Initial Brief pp. 18-19.

Respectfully submitted,

NATIONAL ASSOCIATION OF PRESORT MAILERS

By: 

Henry A. Hart, Esq.

Hazel & Thomas, P.C.

510 King Street, Suite 200

Alexandria, VA 22314

Ph: 703-838-5153

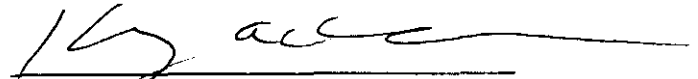
Fax: 703-836-8062

Counsel for National Association of Presort Mailers

Date: April 10, 1998
Alexandria, Virginia

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


Henry A. Hart

April 10, 1998
Alexandria, Virginia

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